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Argentina

Livestock and Products

Semi Annual Report

2005

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Report Highlights:

Argentine beef exports for 2005 are projected at 700,000 tons, carcass weight equivalent (cwe), the largest volume of the past 26 years. The reasons for this increase are: good profitability, opening of new markets, a good sanitary status, and strong world demand. Domestic beef output is expected to drop somewhat, and therefore, consumption should also decline.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Semi-Annual Report
Buenos Aires [AR1]
[AR]

SECTION I. SITUATION AND OUTLOOK

Argentine beef exports for 2005 are forecast up from posts previous report to 700,000 metric tons (cwe). Good returns, the opening of new markets, and strong demand from countries which do not have many supply alternatives, are expected to push exports to the highest level in the past 26 years.

Local beef traders expect stronger world prices in 2005 primarily as result of the European Union (EU) lower production and steady demand in the U.S. Although Argentina cannot sell its beef to markets which have "zero-risk" policy on foot and mouth disease (FMD), beef export prices have been recovering in the past couple of years. The following table shows average prices of Argentine beef exports per type of product (in US\$ per ton):

Argentine Beef Export Prices

In US\$/Ton	2000	2001	2002	2003	2004
Total	2,820	2,380	2,070	2,340	2,460
Frozen boneless	2,010	2,080	1,260	1,480	1,730
Chilled boneless	4,560	3,750	3,670	4,340	5,020
Thermoprocessed	2,190	2,190	1,850	1,890	2,200

The main products which Argentina has been exporting, and is expected to continue in 2005, are frozen boneless beef, chilled boneless beef, and thermoprocessed beef. The frozen beef is a low-price market, but of high volume; chilled beef exports are directed to a smaller, but very attractive market due to the high price. The latter exports go primarily to the E.U. Thermoprocessed beef is represented in the main by cooked frozen beef (including IQF products), followed by corned beef and other specialty products.

Most traders would like to see the U.S. and Canadian markets open (they are currently closed due to foot and mouth disease), as they believe it would provide good opportunities to improve the value of exports. The Japanese and Korean markets will be quite difficult to access as their sanitary requirements are very strict. The following table shows Argentine beef exports of the past five years by type of product (product weight, in tons):

Argentine Beef Export Volumes

	2000	2001	2002	2003	2004
Total	233,000	103,000	228,000	254,000	430,000
Frozen	88,000	28,000	100,000	116,000	260,000
Chilled	72,000	15,000	60,000	68,000	84,000
Thermoprocessed	73,000	60,000	68,000	70,000	86,000

The best markets for 2005 are expected to be the Russian Federation, the EU, Israel, the U.S., Chile, Venezuela, and Algeria, Morocco and Egypt. All these countries together accounted for approximately 80 percent of Argentina's 2004 beef exports. The Russian Federation was the number one market in 2004, but there is uncertainty on how it will distribute its import licenses in 2005 and what will happen with several of its suppliers (e.g. Brazil) which were out of the market in 2004 on account of animal diseases problems. Exports to the EU are expected to grow somewhat in 2005 due to their tighter supply and demand. Apart from the 28,000-ton preferentially priced Hilton Quota, Europeans are

buying large volumes of beef outside the quota and paying high import duties. Germany is the number one buyer, followed by the United Kingdom, the Netherlands and Italy. Israel has become a consistently good importer of Kosher frozen beef, buying 3-4,000 tons per month. Local traders expect a continued strong beef demand in the U.S., and therefore, volumes of thermoprocessed beef could increase somewhat. Chile, which reopened its market in mid 2004, is expected to increase its purchases significantly over the 12-month period. However, Argentines are finding this market quite difficult, as the competition with low-priced Brazilian beef is difficult to overcome. The North African countries mentioned above, plus several other low-priced beef markets are expected to remain as a good source of volume, but as soon other markets pay higher prices, exports to these countries will tend to diminish.

In early January 2005, after 15 months without an FMD case, the Organization of International Epizootics (OIE) declared Argentina free of FMD with vaccination. This announcement is expected to facilitate the opening of a few more markets, such as the Chinese (preliminary analysis indicates that opportunities will be very limited). Argentina opened more than 30 markets in 2004, and currently has access to 84 markets. The U.S. market for Argentine fresh beef is still closed. The Argentine Government Food Safety and Regulatory Authority (Senasa) has recently provided APHIS with information needed to begin the evaluation and send a team to conduct a risk assessment. Most local traders would like the U.S. market to open as soon as possible.

Exports for 2004 are estimated at 640,000 tons, a volume which nobody was able to predict not even 6 months earlier. The second semester of last year was particularly dynamic with the combination of a strong world demand and high local cattle supply, which put downward pressure on cattle prices. The Russian Federation increased imports from Argentina significantly as it shut off imports from Brazil due to FMD. The EU also increased imports in the last two months of the year. Beef demand from the U.S., Chile, Venezuela and Algeria was also steady.

The Argentine Beef Promotion Institute has been carrying its activities. It participated in several international food shows (France and Russian Federation), conducted a market analysis of the Chilean beef market, and organized promotions in Chile and the domestic market. It is also working actively and supporting Senasa to accelerate the opening of new markets.

Cattle slaughter for 2005 is estimated at 13.6 million head, somewhat higher than our previous estimate. Most cattlemen and analysts indicate that there are a lot of cattle at the ranches. In the past few years, with excellent grain and oilseed prices, most farmers reduced significantly the area devoted to cattle production but did not get rid of the animals. In fact, in many cases, part of the earnings in cropping was directed to the cattle business. This situation, plus the fact that corn is now used extensively in cattle finishing (and in some cases cow-calf operations under certain circumstances), helped to moderate climatic problems, such as the drought of 2003. In fact, due to the low price of corn, ranchers will increase the use of it for cattle finishing in 2005. Not only commercial feedlots are expected to work at higher capacity, but ranchers are also expected to use more corn, especially in the finishing of the last 80-100 kilos.

Although beef supply in 2005 is estimated to fall marginally, it will still be substantial. However, as the result of expected greater exports, domestic consumption will drop. The domestic market accounted for 80 percent of the total output in 2004. There is room for more beef exports as long as the business continues to be profitable. Local cattle prices are forecast to increase in 2005 (smaller output, firm export demand, improvement of the domestic economy), but they would be partially offset by higher FOB prices.

In 2005, the exchange rate is expected to remain quite stable and inflation should be kept under control. However, production and processing costs are expected to continue to increase, making exports less competitive.

Several provinces and the national governments have or are planning to announce some programs to encourage cattle production. Measures would be directed to improve and expand pastures, retain females, etc. However, analysts are doubtful of the real impact of these programs. What has improved, with the help of provincial governments, is the condition of slaughter plants.

SECTION II. STATISTICAL TABLES

PSD Table

Country Commodity	Argentina Meat, Beef and Veal					
	(1000 MT CWE)(1000					
	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official [Estimate [DA Official [Estimate [DA Official [Estimate [
Market Year Begin	01/2003			01/2004		01/2005
Slaughter (Reference)	13000	13000	14000	14600	13000	13600
Beginning Stocks	0	0	0	0	0	0
Production	2800	2800	2900	3080	2730	2950
Intra EC Imports	0	0	0	0	0	0
Total Imports	12	10	3	4	2	2
TOTAL Imports	12	10	3	4	2	2
TOTAL SUPPLY	2812	2810	2903	3084	2732	2952
Intra EC Exports	0	0	0	0	0	0
Total Exports	386	380	540	640	600	700
TOTAL Exports	386	380	540	640	600	700
Human Dom. Consumptic	2426	2430	2363	2444	2132	2252
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumptic	2426	2430	2363	2444	2132	2252
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	2812	2810	2903	3084	2732	2952

PSD Table

Country Commodity	Argentina Animal Numbers, Cattle (1000 HEAD)					
	2003 USDA Official	Revised Estimate [1]	2004 DA Official	Estimate [1]	2005 DA Official	Forecast Estimate [1]
Market Year Begin	01/2003	01/2003	01/2004	01/2004	01/2005	01/2005
Total Cattle Beg. Stks	50869	50869	50768	50768	49066	49067
Dairy Cows Beg. Stks	2000	2000	2000	2000	2100	2100
Beef Cows Beg. Stocks	19000	19000	18800	19200	18600	19000
Production (Calf Crop)	14000	14000	13000	13600	14200	14400
Intra EC Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	64869	64869	63768	64368	63266	63467
Intra EC Exports	0	0	0	0	0	0
Total Exports	1	1	2	1	2	2
TOTAL Exports	1	1	2	1	2	2
Cow Slaughter	4400	4400	4800	5100	4200	4400
Calf Slaughter	1900	1900	2200	2300	2000	2100
Other Slaughter	6700	6700	7000	7200	6800	7100
Total Slaughter	13000	13000	14000	14600	13000	13600
Loss	1100	1100	700	700	700	700
Ending Inventories	50768	50768	49066	49067	49564	49165
TOTAL DISTRIBUTION	64869	64869	63768	64368	63266	63467